

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of)

Price Cap Performance Review)
for AT&T)

CC Docket No. 92-134

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Reply Comments

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BellSouth Corporation ("BellSouth") hereby files its
Reply Comments in the captioned proceeding in accordance
with the Commission's Notice of Inquiry released July 17,
1992.

MCI Telecommunications Corporation ("MCI") seems to be institutionally incapable of limiting its comments to the issues before the Commission. Rather than analyzing the AT&T price cap plan, MCI spent most of its comments discussing regulation of the local exchange carriers ("LECs"). MCI's comments are not only in the wrong forum, they are simply wrong.

MCI attempts to redefine the equal access obligations imposed on the LECs as a result of the AT&T divestiture to include 800 Number Portability and Billed Party Preference.¹ Neither of these issues involves the Court mandated equal access obligations of the LECs, but rather involve policy considerations and cost/benefit tradeoffs that are pending in other dockets before this Commission. Discussion of these issues has no place in the AT&T Price Cap Performance Review, and BellSouth will not discuss the merits of MCI's

¹MCI Comments at 4.

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views on these issues here.

MCI next launches into a discussion of LEC Access Charge rate structures and LEC costs.² Again, these complex issues are pending in other Commission dockets, and have nothing to do with the efficacy of the AT&T price cap plan. BellSouth will address these issues in the appropriate dockets.

Finally, MCI alleges that interexchange competition, not price caps, is responsible for the consumer benefits in the interexchange marketplace.³ MCI cites the fact that some LECs are priced at the cap as evidence of failure of the LEC price cap plan. MCI's comments are at best irrelevant and at worst misleading. First, the success of the LEC price cap plan does not depend on LECs pricing below the cap. The Commission has adopted a price cap plan for the LECs that insures significant consumer benefits when LEC prices are at the cap.⁴ Furthermore, MCI ignores the implementation by BellSouth of a higher optional

²MCI Comments at 4-5.

³MCI Comments at 6-7.

⁴The LEC price cap plan imposed a productivity offset on the LECs that was higher than that imposed on AT&T, despite evidence that there are far greater opportunities for scale economies in the interexchange portion of the network. Furthermore, the Consumer Productivity Dividend, which is cumulative in its impact, insures that interexchange carriers such as MCI receive lower access charges from the LECs than would otherwise be the case. Of course, it is up to the interexchange carriers to pass these benefits on to the ultimate consumer.

productivity offset in its latest annual price cap tariff filing. This election insured MCI and other interexchange carriers of prices one percent lower than they otherwise would have been had BellSouth elected the standard productivity offset. Such issues deserve full discussion in the LEC price cap review in 1994, not in this proceeding.

MCI attributes to competition in the interexchange marketplace all of the consumer benefits cited by the Commission in the Notice of Inquiry. Certainly, there is competition in the interexchange marketplace. But at present that competition seems to be in the area of services and quality rather than pure price competition. The price competition that exists seems focused on business and high volume residence toll users, such as customers of AT&T's Reach Out offerings. MCI's comments incorrectly ignore the benefits that price cap regulation has brought to the average residential consumer.

Price cap regulation is performing precisely as anticipated by the Commission. The improved incentive structure that the Commission provided to AT&T through price cap regulation has complemented the development of competitive markets for interexchange services. Unfortunately, the Commission dampened many of these positive incentives with heavy-handed regulation when it implemented price cap regulation for the LECs. IF MCI is truly concerned with providing the LECs with appropriate

incentives⁵, it should support the adoption of a purer form of price cap regulation for the LECs. In any event, these issues should be addressed in the LEC price cap performance review, not this proceeding.

The Communications Workers of America ("CWA") call for the Commission to actively monitor the adequacy of price cap carriers' work force to meet customer demands. CWA cites the downsizing of the AT&T work force as evidence that price cap regulation is providing companies with an incentive to cut front line forces and place reduced attention on training.⁶ However, the statistics cited by CWA to support these contentions⁷ clearly demonstrate that most of the downsizing of the AT&T work force occurred prior to the implementation of price cap regulation. Indeed, since price cap regulation was introduced, the pace of downsizing by AT&T has slowed. CWA also ignores the impact of increased competition and the prolonged recession on the demand for AT&T services as factors in the AT&T downsizing.

Price cap regulation provides incentives to properly match the force to the load, and to provide adequate training to front line personnel. The quality commitment of price cap carriers to "do it right the first time" cannot be met unless front line personnel are adequately trained and

⁵See MCI Comments at 7, footnotes 11 and 12.

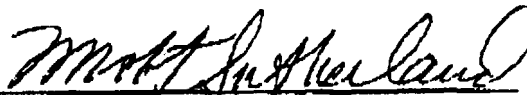
⁶CWA Comments at 3.

⁷CWA Comments, Table 1.

equipped. Price cap regulation aligns the incentive structure of the carriers with that which exists in unregulated sectors of the economy: to improve profitability through the efficient provision of services of the quality demanded by customers. A failure on the part of any carrier to achieve this objective is not a function of price cap regulation.

Respectfully submitted

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October 5, 1992

CERTIFICATE OF SERVICE

I hereby certify that I have this 5th day of October, 1992 serviced all parties to this action with a copy of the foregoing REPLY COMMENTS by placing a true and correct copy of same in the United States mail, postage prepaid, to those persons listed on the attached service list.

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